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SENSITIVE

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NSC FOR SENIOR AFRICA DIRECTOR MICHELLE GAVIN

NSC FOR CPRATT

TREASURY FOR D. PETERS

STATE PASS TO USAID FOR LDOBBINS AND JHARMON

COMMERCE FOR BECKY ERKUL

AFR/SA FOR ELOKEN, LDOBBINS, BHIRSCH, JHARMON

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OFDA/W FOR ACONVERY, CCHAN, LPOWERS, KMARTIN

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GENEVA FOR NKYLOH

ROME FOR USUN FODAG FOR RNEWBERG

BRUSSELS FOR USAID PBROWN

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SUBJECT: AFRICAN DEVELOPMENT BANK: NOT YET TIME TO REENGAGE

SUMMARY

11. (SBU) Ambassadors and aid agency heads attended a briefing by African Development Bank (AFDB) President Donald Kaberuka on June 9. Kaberuka, who we met just after the COMESA summit in Victoria Falls, related his impressions of Zimbabwe and the content of various meetings with political and business leaders during his visit. During meetings with both Prime Minister Morgan Tsvangirai and President Robert Mugabe, the leaders touted the new arrangement as workable. Kaberuka said that investors will continue to be skeptical about Zimbabwe until further changes have been achieved. Finally, he advised that the time has not come for full-scale reengagement. END SUMMARY.

Message to the Private Sector

12. (SBU) Donald Kaberuka, President of the African Development Bank was in Harare on June 9 following the recent Common Market of Eastern and Southern Africa (COMESA) meeting in Victoria Falls, Zimbabwe. During our meeting on June 9 with Kaberuka and representatives from the UK, Germany, Netherlands, Sweden, Denmark and France, Kaberuka said that his message to the Zimbabweans at the COMESA meeting focused on the importance of creating business

confidence as a means of creating economic growth.

Mugabe and Tsvangirai Upbeat

¶13. (SBU) Kaberuka also told us of his discussions with both President Mugabe and Prime Minister Tsvangirai regarding the prospects of the inclusive government and land reform. Unsurprisingly, Tsvangirai was upbeat and said that the government is working. He acknowledged unresolved issues and appealed to Kaberuka to advocate for international engagement.

¶14. (SBU) Mugabe also told Kaberuka that the inclusive government is working, but described it as a temporary arrangement. On land, the president said, "this is nothing new." He told Kaberuka that the government would allow people to take possession of their land as part of the land reform. Mugabe also cited an alleged ongoing land audit and repeated his claim that the government will not allow land for prestige purposes. (COMMENT: Although the need for a land audit was cited in the September 15 Global Political Agreement (GPA), no progress towards an audit has yet been made. In fact, many of the recent farm seizures have been led by ZANU-PF leaders who have already received one or more farms. END COMMENT.)

¶15. (SBU) When Kaberuka noted the international skepticism of the Q5. (SBU) When Kaberuka noted the international skepticism of the GPA, Mugabe commented that those who are skeptical "have always been." Kaberuka reiterated to Mugabe that international support will not increase substantially until further progress towards fulfilling the GPA has been achieved.

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AFDB Programs and Concerns

¶16. (SBU) Turning to Zimbabwe's financial woes, Kaberuka said that Zimbabwe is the biggest liability on the AFDB books. He outlined the Bank's current programs in country and said the AFDB will establish an in-country presence as soon as possible, in addition to bank staff already in Harare based at the Ministry of Finance.

7 (SBU) The AFDB is currently providing Zimbabwe technical assistance in the form of US\$6 million to the Ministry of Finance and will soon provide Finance Minister Tendai Biti with a senior advisor. In addition, the bank is providing assistance for water and sanitation systems in coordination with UNICEF.

¶18. (SBU) The AFDB is also working with the World Bank on Zimbabwe's arrears. Kaberuka told us the AFDB is willing to offer US\$100 million of its own money and could accept contributions from donors for arrears clearance when the time comes. Kaberuka noted that this process took 18 months in Liberia but more recently the clearance of Cote d'Ivoire's arrears took just six months due largely to a contribution from the French. Kaberuka was very clear that budget support was "a long way off" and noted that the Bank's recently-approved short-term strategy would not be expanded any time soon.

¶19. (SBU) Kaberuka further related that local bankers had expressed skepticism that the inclusive government either won't hold or that there will be policy reversals. Until further political and economic change is achieved and is seen as irreversible, investors will continue to steer clear of Zimbabwe's troubled economy.

¶10. (SBU) In closing, Kaberuka told donors, "the time has not come for full scale reengagement."

COMMENT

¶11. (SBU) As in previous meetings and his public statements,

Mugabe's comments to Kaberuka clearly indicate that the intransigent leader sees the current arrangement as a short-term deal. Mugabe remains stuck in the past and is not thinking about long-term development. In contrast, Tsvangirai remains focused on the future.

In the present, however, the business environment remains unappealing to private investors. As Kaberuka says, it remains clear that neither donors nor businesses can reengage with further assistance or investment until further change has been achieved.

END COMMENT.

MCGEE